



1998

Sustaining the  
momentum of change

## Contents

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King Fahd bin Abdulaziz Al Saud  
The Custodian of the  
Two Holy Mosques



His Royal Highness  
Prince Abdullah bin Abdulaziz Al Saud  
Crown Prince, First Deputy Premier  
and Head of the National Guard



His Royal Highness  
Prince Sultan bin Abdulaziz Al Saud  
Second Deputy Premier, Minister of Defense  
and Aviation and Inspector General



## Key facts



Saudi Arabia's oldest and largest bank;

A network of 249 branches and offices Kingdom-wide;

47 branches dedicated to Islamic banking;

375 Al-Ahli Express ATMs in service with an overall market share of 21%;

3,013 Point of Sale terminals in operation throughout the country;

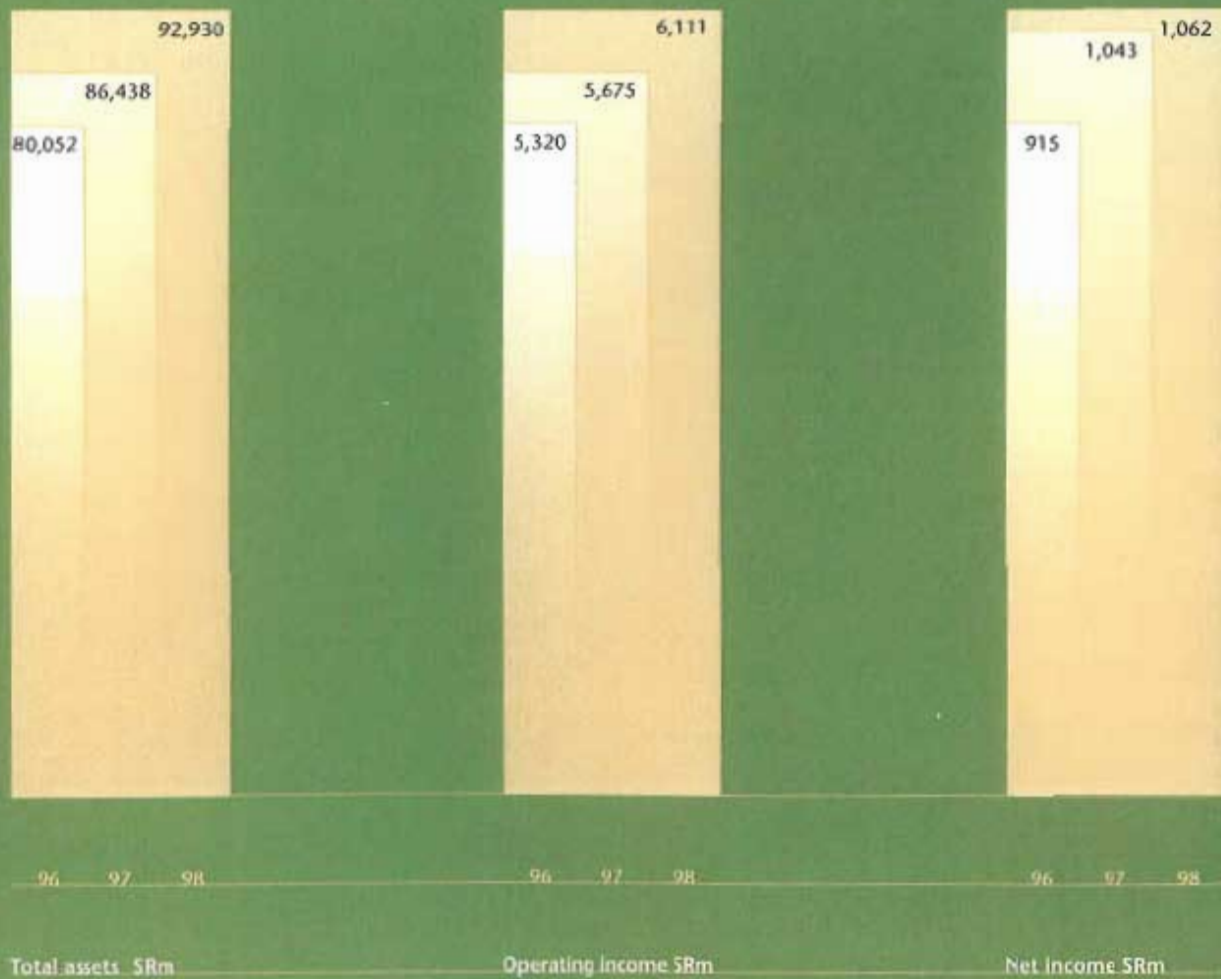
NCB voted "Best Bank in Saudi Arabia" for 1998 by Euromoney Magazine;

Saudisation has reached 70% bank-wide;

NCB's customers benefit from more than 600 correspondent banking relationships, spread over 70 countries worldwide;

NCB's Global Trading Equity Fund, with almost SR two billion in assets under management, is the world's largest Sharia-compliant fund;

ISO certification for data processing technology has been retained.



## Our vision

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- NCB is the leading bank in Saudi Arabia;
- NCB's purpose is to enhance the value of the Bank and to serve society;
- NCB is the first choice for customers and talented employees;
- NCB is primarily a consumer bank, providing deposit, investment and innovatively tailored asset products to retail, affluent and high net worth customers;
- NCB engages selectively in corporate business with a full range of banking services for the commercial segment, and corporate finance services for large corporate clients;
- NCB is building a diversified portfolio with returns commensurate with the risks;
- NCB's core values are customer service, reward for performance and teamwork.



We are pleased to welcome you to the Annual Report and Accounts of The National Commercial Bank for the year ended 31st December 1998. You will find that they reflect another successful year for the Bank.



Since then, there have been some significant changes which we would like to report.

We are pleased to confirm that the Public Investment Fund (PIF), an important investment arm of the Ministry of Finance, has acquired a 50 percent interest in the Bank. This will greatly assist the creation of an orderly market in which NCB's shares will be traded. This will permit the Bank to manage its objective of enabling shares in NCB to be acquired by the investing public over a period of time, depending on market conditions. This change in ownership will be reflected in the composition of the Board of Directors. Meanwhile, we are pleased to report that the continuity provided by NCB's professional managers is maintained.

The first six months of 1999 have seen some important changes in the structure of the Bank's balance sheet, with a marked reduction in Loans

and Advances, and further increases in our Investment Securities portfolio. These changes not only greatly enhance the Bank's liquidity but have led to overall improvements in our principal ratios, which will provide a stable environment in which the new shareholders and the Board of Directors can apply their experience and expertise in assisting management in the pursuit of NCB's long term objectives.

We are pleased to take this opportunity to pay tribute to the encouragement and support of the Ministry of Finance and National Economy and the Saudi Arabian Monetary Agency who create a healthy and well regulated financial climate under which the nation's banking community can continue to serve, to flourish and to develop.

We wish to record our profound gratitude to the Custodian of the Two Holy Mosques, King Fahd bin Abdulaziz Al-Saud; HRH Crown Prince

Abdullah Bin Abdulaziz Al-Saud, First Deputy Premier and Head of the National Guard; and HRH Prince Sultan Bin Abdulaziz Al-Saud, Second Deputy Premier, Minister of Defence and Aviation and Inspector General, under whose leadership the Kingdom's banking community has benefited from, and can look forward to receiving, unequivocal support and guidance.

The satisfactory financial performance of NCB in 1998 has been achieved in sometimes difficult conditions. It is due to the continued loyalty and support of our customers and the commitment of NCB's staff to providing excellence in all departments and at all levels. To them, and to our valued correspondents, we extend our sincere thanks.

Abdullah Salim Bahamdan  
Vice Chairman and Deputy General Manager  
for the Board of Directors



## The Board of Directors' report 1998

The Board of Directors of The National Commercial Bank is pleased to submit its report on the Bank's performance for the year ended 31st December 1998.

This year represented the Bank's first full year as a Saudi joint stock company and is best described as a year of consolidation and preparation. Nevertheless, NCB has continued to use its substantial investment in both human resources and technological infrastructure to maintain its momentum of change in service performance, responsiveness to market conditions and customer driven innovation.

### Financial Results and Position

NCB's net operating profit before loan loss provisions rose in 1998 by a healthy 14.3% to SR 1.6 billion while its net profit for 1998 increased by 1.8% to SR 1,062 million over the SR 1,043.3 million achieved in 1997. This improvement in net profit was achieved in the context of an increase of over 40% in loan loss provisions - from SR 450 million in 1997 to SR 646.8 million in 1998.

NCB's total assets at the end of 1998 were up by 7.5% to SR 92.9 billion compared to SR 86.4 billion at the end of 1997. This rise included a growth in Loans and Advances - up from SR 46.3 billion to SR 56.4 billion - and an increase in the Investment Securities Portfolio from SR 16.9 billion in 1997 to SR 19.2 billion in 1998, thus maintaining NCB's premier position among banks in the Middle East.

Deposits increased by a further 6.2% - from SR 61.9 billion in 1997 to SR 65.7 billion - and this

reflects the dominant role which NCB plays in the Kingdom, through its comprehensive network of branches, ATMs and POS terminals, in attracting new customers.

Total shareholders' equity in 1998 was over SR 8 billion and the Bank has maintained its capital adequacy ratio at over 15% - well in excess of international and domestic requirements.

### Year 2000

Special attention is being paid by the Bank to the potential difficulties associated with technology and the Year 2000. We are pleased to report that all computer programs and core systems of the Bank have been successfully converted and comply with the guidelines established by SAMA. In addition, NCB has been at the forefront of increasing public awareness of this important issue and is providing assistance to its customers in order to help them meet its challenges.

### Human Resources

NCB recognises the value of well trained and well motivated employees and in 1998 continued to recruit fresh graduates and to train and develop its workforce through its own training centre, in SAMA's Institute of Banking, as well as overseas. The Bank's aim is to improve the professionalism of its management and staff.

The focus of recruitment has been the continuation of NCB's successful programme of attracting and retaining Saudi nationals. By the end of 1998, the Bank had achieved a 70% level of Saudisation - among the highest in the Saudi banking sector. This achievement was recognised by the "Award of Saudisation" received from HRH Prince Naif bin Abdulaziz Al-Saud, the Minister of Interior and Chairman of the Saudi Workforce Committee.

The sincere and rigorous attention of NCB's management and staff to providing, at all times, a quality service within the parameters of banking prudence and best practice, were rewarded by NCB being granted the accolade of "Best Bank in Saudi Arabia for 1998" by the prestigious Euromoney magazine.

### Directors' Remuneration

Amounts received by the Board of Directors, including directors' remuneration, attendance fees and expenses reimbursed, amounted to SR 1,744,680. Amounts received by the directors for services rendered in their capacities as executive officers, including salaries, allowances and benefits paid, amounted to SR 2,444,152.



Khalid Salim Bin Mahfouz  
Chairman

Abdullah Salim Bahamdan  
Vice Chairman

Abdulrahman Khalid Bin Mahfouz

Saleh Husseln Kaki

Sultan Khalid Bin Mahfouz

Mar'ie Abdullah Bugshan

Dr. Naser Ibrahim Al Qaud

Abdulrahman Abdulaziz Al Ohaly

Mutlaq Abdullah Al Mutlaq

## The Board of Directors' report 1998

The Board of Directors has recommended the distribution of SR 795 million to shareholders, corresponding to a dividend of SR 13.25 per share. The Board has also recommended the appropriation of retained earnings as follows:

	SR 000's
Net Income	1,061,987
25% Transfer to Statutory Reserve	(265,497)
Retained Earnings from 1997	25,061
Profits available for distribution	821,551
Distributed as follows:	
Proposed dividend to the shareholders	795,000
Zakat	26,092
Retained Earnings for 1998	459
	821,551

Pursuant to the requirements of SAMA and The Ministry of Trade, NCB has formed a three member audit committee, which commenced its work on the 1st July 1998.

The first general meeting of the Bank's shareholders held on 11-2-1418 H (corresponding to 16th June 1997), appointed Messrs. Al-Sayed Al Ayouti & Co. and Messrs. Whinney Murray Co. jointly as Auditors of the Bank for a period of two years, effective from 1st July 1997, the date of converting the Bank into a joint stock company, and determined their fees in accordance with Article 37 of the Bank's Articles of Association.

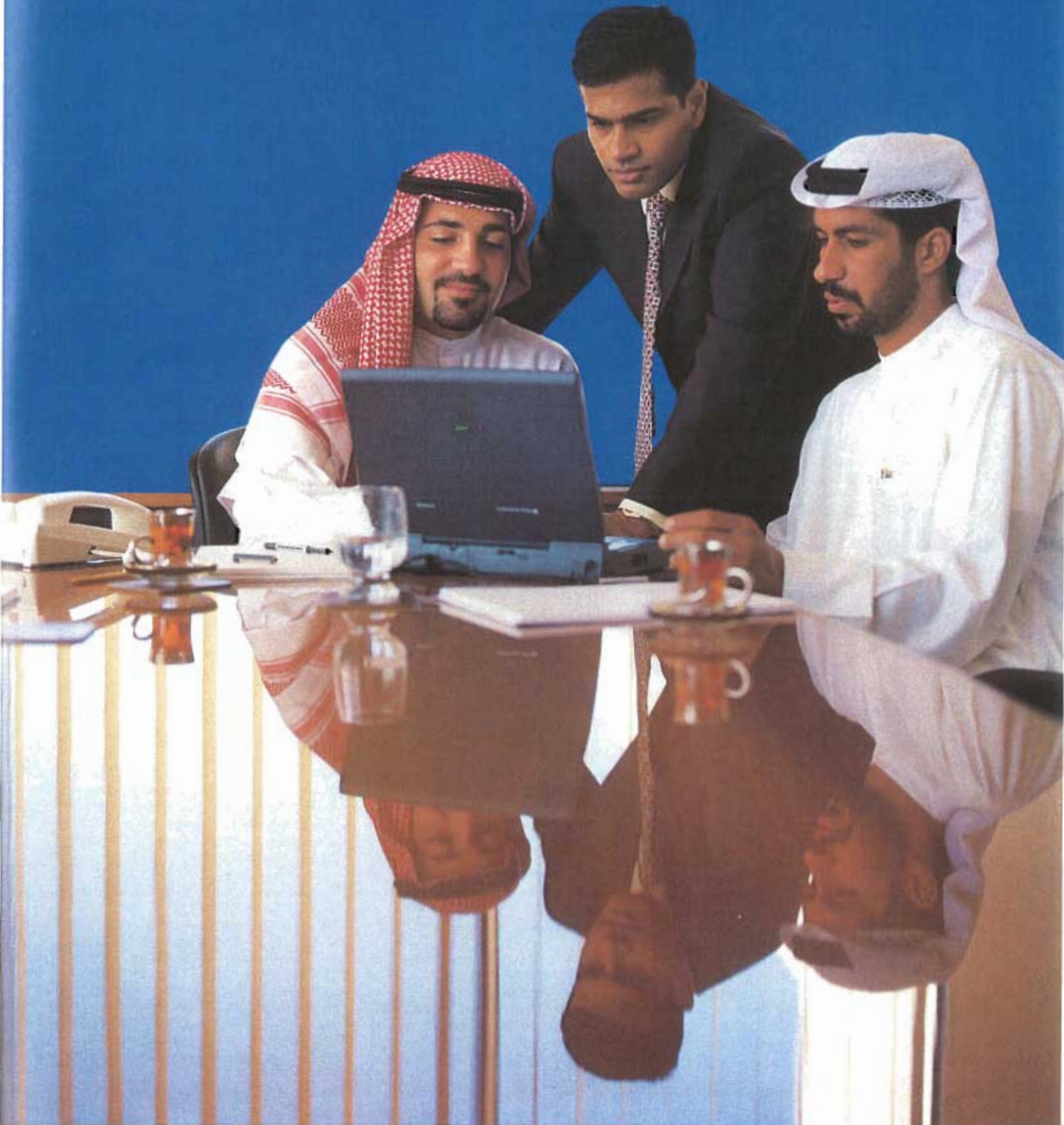
Finally, we wish to pay tribute to the guidance and assistance we have received from the supervisory authorities; and we would also like to thank the Bank's customers, correspondents and employees for their support and commitment in 1998, and their continuation in the coming years.

### The Board of Directors

In 1998 NCB continued its long established practice of contributing to social, cultural, charitable and educational activities in the Kingdom. Contributions and donations to a wide variety of deserving causes, including educational and charitable societies, individuals and social activities, amounted to SR 41.1 million for 1998.



Commitment and meaningful  
dialogue leads to lasting  
relationships with our customers.



## Review of operations

Sustaining our Performance

1998 has seen the Bank successfully meet each one of the objectives set out in our strategy document three years ago. Against a background of unprecedented turbulence in world markets, historically low oil prices and a fierce squeeze on domestic liquidity, I am pleased to report that we have met our budget targets for the year.



**Saleh Hussein Kaki**  
Deputy General Manager for Banking Operations

Customer satisfaction has remained at gratifyingly high levels and our delivery channels have improved significantly, particularly through our ATM network and the 24-Hour Call Centre. By April 1999, we expect to be fully Year 2000 compliant.

For NCB a new cycle is beginning. We will continue to develop the role of our branch network and enlarge our customer base, principally by targeting the student/youth market and those currently outside the banking system. We have set ourselves the target of 75% Saudisation by the year 2000 and will continue to seek the optimum balance between staffing levels and technological advances. In summary we will follow a course of measured expansion.

### Branch Banking

Retail banking remains the bedrock for NCB's operations and ensures we remain responsive to our customers' needs. In a market which grew modestly during 1998 NCB's share increased encouragingly. 1998 has also seen a healthy rise in Saudisation within the division, from 71% to 76%.

Our branch network has now reached 249 Kingdom-wide and continues to provide an extremely valuable distribution channel for the products and services our customers require. In keeping with our historical commitment to providing services throughout the Kingdom, we operate a number of branches in more remote locations, which perform an important social function. Through these, the government payroll to its staff can be delivered conveniently and efficiently.

We have undertaken a comprehensive review of our branches, their look and feel, in order to improve the transaction environment still further. In 1997, we introduced the concept of the electronic, or virtual, branch. During 1998, this has evolved into the self-assisted branch, with an ATM, a utility payment terminal, a deposit facility and an interactive information terminal. Each branch of this type is also staffed by two bank employees. The first was opened in the north terminal of Jeddah's King Abdulaziz International Airport.

The Al Wessam Prime Service, introduced last year for the Bank's upscale customers, has enjoyed a satisfying record of growth and amply demonstrates the popularity of conducting business in the comfortable surroundings of dedicated, well-equipped private lounges.

During the year, we launched an innovative new programme, Al-Maziah, targeted at our upper middle-market customers. The launch was supported by an extensive marketing campaign which, for the first time, included advertising on both local and satellite television networks. Besides providing the usual benefits associated with a traditional current account, the Al-Maziah programme offers a unique package of eight valuable benefits which can be selected as appropriate to meet customers' needs.

During the year, the Al Asriyah programme for ladies was successfully relaunched with an upgrading of the services provided and has resulted in a substantial increase in our customer base. Equally rewarding was the performance of the Al Aiyal programme which was launched in 1996.

Targeted at the student/youth market, the programme grew remarkably over the year.

The popularity of telephone banking continues to rise. Indeed, the Call Centre has become an important hub for communication with our customers, for enquiries and marketing. Call volumes to the toll-free number have risen annually and staffing levels have been increased appropriately. Despite the rapid growth, response times are currently running at an average of four seconds. Furthermore, to monitor service quality and help identify further improvements, we have launched a Management Call-Back initiative, designed to gauge customer reaction to our performance and delivery. Saudisation within the Centre has now reached an impressive 81%.

NCB's ATM network, which now stands at 375 machines across the Kingdom, represents a market share of 21%. During 1998, ATM transactions have grown strongly, rising more than 30% compared with the previous year. POS terminals, on the other hand, have seen a decline as we continue to restructure the distribution network in order to improve quality.

Following new initiatives, credit card business has grown substantially during 1998, particularly among non-bank customers. Two major programmes were launched – the MasterCard World Cup card and the MasterCard and VISA Al Fursan co-branded cards. A measure of our success was reflected in the award we received from Mastercard International against competition from 11 countries in the Middle East and Africa. VISA International also acknowledged NCB's successes with the Al Fursan co-branded card.



We will continue our commitment to upgrade and improve the range of services offered through our alternative distribution channels, of which Telephone Banking and ATMs are the backbone. 1999 will see considerable improvements in these areas as well as the testing of other channels becoming available through new technology. We anticipate the launch of the Internet in the Kingdom with enthusiasm. We believe it represents an exciting new medium for delivering the Bank's products and services to an even wider customer base in a fast changing environment.

Within the Corporate & Institutional Banking Division (CIBD), it is the quality of relationships with our customers and the in-depth development of our human resources which matter. We seek to build the best team of corporate bankers in the Kingdom, with a wide range of experience and a high level of enthusiasm and motivation. We operate a 14-year training programme designed to create bankers of international quality with the broadest possible perspectives. Our long term commitment ensures a ready supply of quality personnel to fuel the Bank's future expansion in every business sector.

During 1998, CIBD has been regrouped into three separate sub-divisions. This permits the consolidation and centralisation of business functions and a reduction of administrative layers in the back office.

Corporate Banking Group (CBG) serves large corporate entities. Its objective is to deliver innovative tailor-made products and services

which reflect the complexities and corporate banking needs of NCB's larger business customers. Typically, these will include financing expansion and working capital requirements, trade, project and contract financing. CBG is ranked number one among Saudi banks, with a large share of the market.

Over the course of the year, the Corporate Business Banking Group (CBBG) has been split into two – the Middle Market Unit which focuses on medium sized businesses and the Business Banking Unit which meets the needs of small businesses. The service includes short, medium and long term loans, letters of credit and guarantee, foreign exchange and a full range of commercial banking products. In its sectors, CBBG enjoys a good share of middle market business and a larger share among smaller businesses.

The Special Assets Group (SAG), introduced this year, concentrates on corporate recovery and the remedial management of problem relationships. Recognising the challenges of today's turbulent business climate, SAG develops proactive action plans to explore alternatives for improvement with difficult credits – thus creating profitable performing assets and minimising potential losses.

CIBD has completed a number of significant transactions during 1998. These include over SR 1.5 billion in syndications and SR 500 million in project finance. Working closely with Islamic Banking, CIBD is making substantial progress in devising new, high-added value solutions within an Islamically acceptable structure. 1998 witnessed the birth of new transactions that offer considerable potential for our customers. Working

in tandem with our Islamic Banking Division, we granted a loan worth SR 375 million to a major corporate entity in the Kingdom and have secured deposit funds in excess of SR 700 million from a semi-governmental institution.

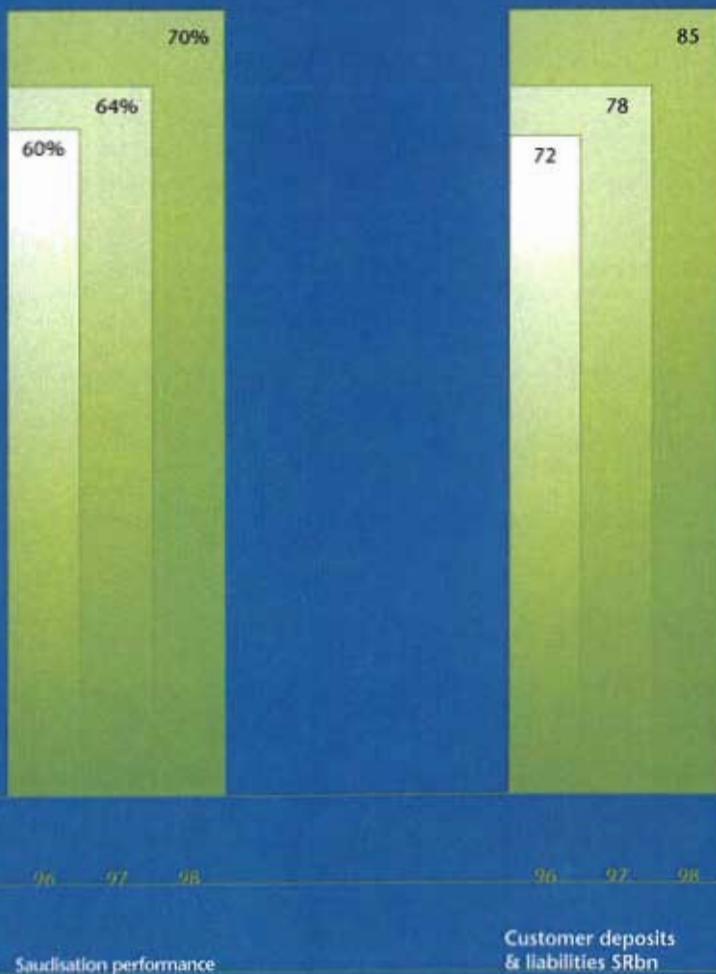
Formed nearly four years ago under the umbrella of the CIBD, Corporate Finance enjoys a substantial level of autonomy due to the nature of its business, geographic spread and its product range. The department is a major regional player, active in the GCC countries, Egypt and the Levant, and acts as CIBD's marketing arm in those areas. Its activities are divided into M & A, advisory services, structured finance and direct equity investment. This structure generates a large measure of cross fertilisation, and leads to much broader penetration of the market.

The Bank's sophisticated new computer system gives access to NCB's database of customers with an appetite for regional investments. This combination of connections and placing power ensures that American and European financial institutions regard the Bank as having the most significant placing power in the Kingdom; augmented by the tactical alliances forged with other dominant players in the GCC region.

High profile deals, concluded during 1998, include the first Master Lease Facility Agreement and Heavy Equipment Receivables Asset-Backed Securities in the Kingdom. We have now begun to export our expertise, as demonstrated by the first Asset-Backed Securities transaction in Egypt and a private placing of US\$ 15,000,000 on behalf of a group of Saudi investors in an American entity.



We have served the Kingdom,  
providing a high level of products  
and services to successive  
generations of Saudi citizens.





Formed some 15 months ago, the Direct Equity Investments team is due to launch the first Direct Equity Fund in the region, targeting small and medium-sized unlisted companies in Saudi Arabia and other GCC countries. This market segment offers considerable potential as family-run trading establishments and manufacturing groups address the key issues of succession, wealth transfer and continuity.

Looking to the future, NCB is keen to explore corporate finance opportunities and Sharia-compliant structured finance. We view the forthcoming privatisation programmes in the region with keen anticipation.

#### Sharia-compliant investments

As the investment services pioneer in the Kingdom, NCB enters its twentieth year in the mutual fund business with a 60% market share of open-ended funds sponsored by Saudi banks. We continue to be the provider of choice to the vast majority of Saudi households investing in mutual funds. This is confirmed by our annual customer satisfaction ratings which exceed 90%.

Over the past twenty years, NCB has recognised that its investors' needs and goals evolve with time. As the choice of available investments is constantly improving and increasing in complexity, we have consistently demonstrated to our customers our ability to match their growing financial needs with solutions that are appropriate, competitive and convenient.

NCB currently offers twenty-six mutual funds with different risk profiles. The range of Al-Ahli

Funds includes eighteen open-ended funds, of which eight are fully Sharia-compliant. Our mutual fund account holders number more than 34,000 – about one in every two investors. To increase accessibility and liquidity, Al-Ahli fund customers can subscribe to or redeem our short term funds daily, and our medium and long term funds twice weekly.

The appetite for Sharia-compliant investment vehicles continues to grow. As a major player since 1987, NCB remains committed to developing and delivering products under the guidance of our Board of Islamic scholars. Launched in 1995, the Al-Ahli Global Trading Equity Fund (GTEF) is now the world's largest Sharia-compliant fund with just under SR 2 billion of assets under management. The fund has also generated a highly competitive return of 118% since inception. At the end of the first quarter of 1998, NCB signed an historic agreement with the National Bank of Kuwait (NBK) to launch the Al-Kawther Fund, which now offers Kuwaiti investors the opportunity to invest in this highly successful fund.

This year, NCB launched two new Sharia-compliant funds: the Al-Ahli Saudi Equity Trading Fund and the Al-Ahli Small Cap Trading Equity Fund. In addition, the Al-Ahli European Equity and Al-Ahli US Equity funds have been redesigned to become Sharia-compliant as well.

During 1998, our series of open-ended Capital Protected Funds (CPF) have remained highly popular with our investors. In 1996 NCB was the first bank in the Kingdom to offer this type of fund, which provides the ideal entry point into

the world of investments. It combines the features of a fixed deposit with equity investment at relatively low risk. During the year, NCB's CPF 4, US Equity Protected Fund (USEPF) and Europe Equity Protected Fund (EPPF) have attracted more than SR1.6 billion between them.

The percentage of Saudi households investing in mutual funds is relatively low by world standards. But, as the leader in a growing market, NCB is actively developing the market and raising public awareness. In September, we participated in the third Annual Investment Symposium held at the Institute of Banking in Riyadh, where NCB received five 1998 Saudi Investment Fund awards. We have introduced a new range of literature, including our quarterly newsletter "Investment Horizons", to help our customers plan for their life's needs.

We are committed to growing the market and maintaining our position of leadership by continuing to listen to our customers and delivering products that are appropriate, innovative and competitive.

#### Summary

1998 was a roller coaster year for the world's financial markets and their participants, with levels of volatility rising by a factor of four. Perhaps the lowest point was reached during the third quarter, when events in Russia, the Far East, the United States and Latin America caused major concern worldwide.

Like most banks, NCB's treasury operations suffered from the volatility; however losses

## Review of operations

Sustaining our Pre-eminent Position

sustained in trading were largely offset by a strong increase in customer related activity. In fact, 1998 was a record year for customer generated revenues.

Risk management has been one of the year's highlights in a tough trading environment. Our market risk management systems met and survived the challenges we faced and provided good analyses of potential losses at all times.

1998 was also a tough year for the domestic markets. Low oil prices combined with public sector retrenchment resulted in a sharp decline in domestic liquidity, as demonstrated by the increase in spread between the Saudi Riyal and the US Dollar. Responding to the change in market conditions, SAMA introduced the Market REPO Rate (MRR) in October and, two months later, launched a 10-year Saudi Government Development Bond (SGDB) and, more importantly, de-linked SGDB pricing from US Treasury yields. This resulted in the creation of a domestic Saudi Riyal Yield Curve.

The decline in liquidity did not translate into a decline in deposits. Indeed, customer deposits rose by 9.6%, or SR 5.9 billion, and represented one of the strongest growth rates in recent years. Accordingly, NCB's share of this extremely important market rose sharply.

Due to the amount of de-leveraging in global markets during the second half of 1998, we expect volatility will decline in 1999 and, therefore, do not expect a repeat of the broad-based asset price deflation that occurred in September and October. However, there are still

many imbalances in the global system, so 1999 will be a difficult year for investors. Domestically, liquidity will continue to be a problem. This will put pressure on interest rates, and perhaps even on the parity, but we do not expect to see a devaluation of the Saudi Riyal.

Over the course of the year, Islamic banking has continued to gain ever wider acceptance as the benefits of this type of finance become increasingly apparent. Indeed, in 1998 the Islamic Banking Division has managed to record above average growth.

Somewhat exceptionally among banks, NCB offers a full range of Islamic financial products, these include Musharaka, Mudaraba, commercial and personal Murabaha, as well as Ijara, Bai Salam and Istisna'a financing facilities. All are subject to the stringent criteria laid down by our own Sharia Board, composed of leading scholars drawn from across the Kingdom. Under their invaluable guidance, we continue to develop new and innovative products specifically targeted at our customers' needs in the investment, finance and retail sectors.

During 1998, we have launched two new structured finance products in addition to two new Islamic investment funds. Three further investment funds are due to be introduced in 1999.

The number of NCB branches dedicated to Islamic banking has now reached 47 and the level of Saudisation within the division stands at more than

70%. It is particularly noteworthy that every senior management position is held by a Saudi national.

NCB's offshore banking unit in Bahrain, which is widely perceived as a centre for Islamic banking, offers a powerful springboard from which to launch Islamic banking products into other countries within the GCC region and beyond. At the same time, we are actively co-operating with other divisions within the Bank to offer Islamic products to a wider clientele.

Consistent with our role as an educator in the field, NCB sponsored a symposium to investigate the parameters and feasibility of establishing an Islamic credit card which would be fully Sharia-compliant. The event was extremely well attended.

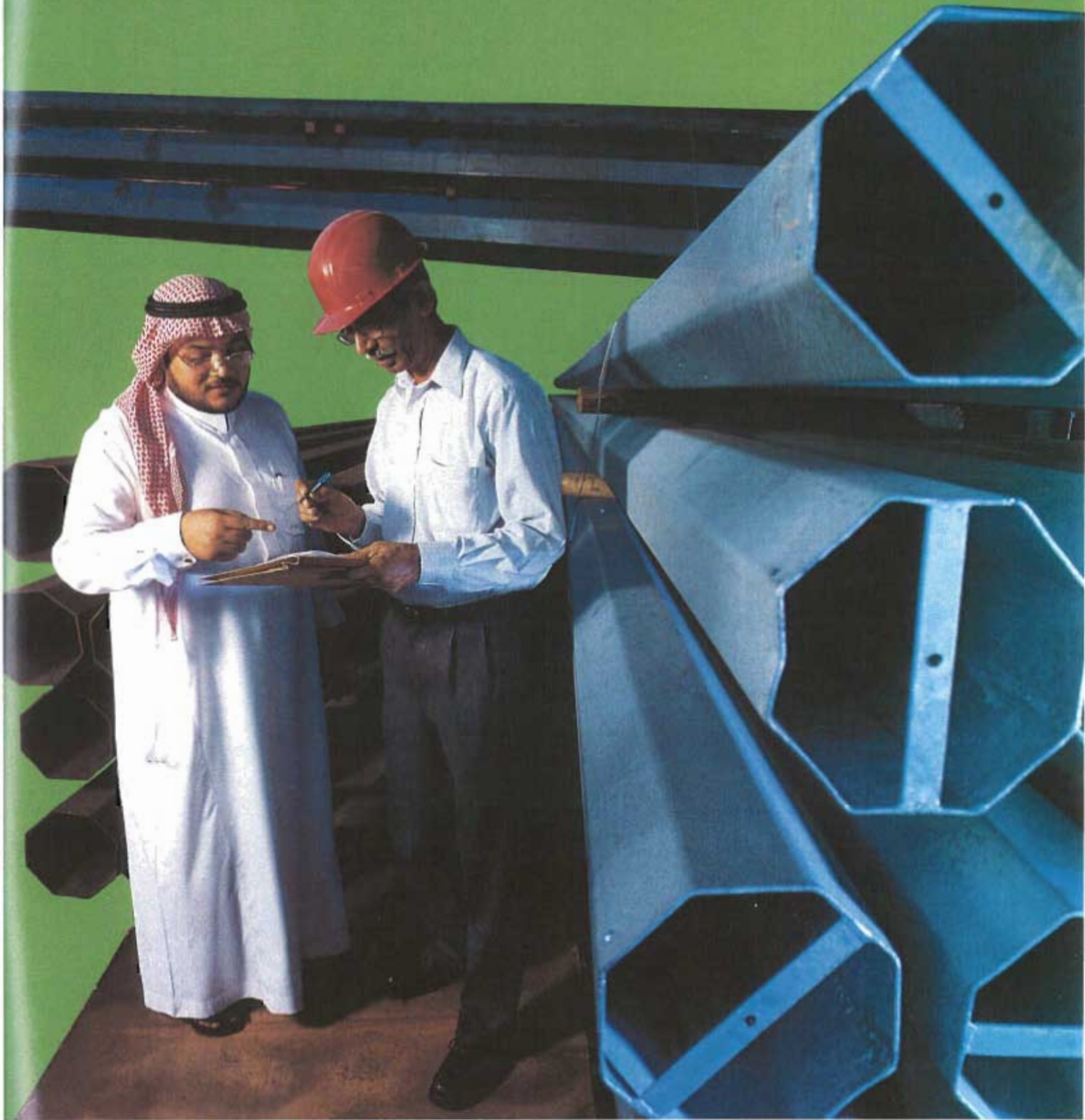
During 1999, we plan to introduce a number of new products and broaden our customer base, with a special focus on the retail sector.

Since its establishment in 1993, NCB Private Banking has delivered a highly focused service to high net worth individuals in Saudi society, who seek the best in investment management, financial advisory and personalised banking services. We regard private banking as a people business, with the emphasis on customer service and relationship management, in which we share both the vision and the reward.

Our core objectives remain constant from one year to the next – to grow, protect and provide efficiently for the transfer of wealth from one generation to the next. Such objectives require skill,



To understand our customers' needs,  
we take a proactive approach to  
developing solutions.





## Review of operations

Sustaining the Capacity to Perform



knowledge and experience: qualities we carefully nurture to ensure we maintain a team of top flight private bankers with a long term perspective.

Our international brokerage was subsumed within Private Banking in 1996, since which time income has doubled year-on-year. This broking service provides exciting investment opportunities for our clients on a global scale, at competitive prices, from people with whom they have built an established relationship.

With Saudisation standing at 83%, we bring dedication, commitment and understanding to the task of meeting our clients' challenging requirements. These often extend far beyond the purely financial, into areas such as property, education overseas and, indeed, the Millennium Bug problem. We have advised many of our clients about the implications of Year 2000 and its likely impact, both privately and professionally.

Operating without territorial restrictions, we aim to deliver wholly impartial advice, and thus maintain our hard won reputation as trusted advisors. Through a complex network of connections, allies and strategic partnerships, we offer ingenious solutions to challenges, even if they fall outside our own direct areas of expertise.

The division performs two distinct but related functions within the Bank. The IT Group is responsible for planning, developing and managing the complex computer systems and network, which is indispensable to every facet of the Bank's operations. The Operations Group

provides the extensive and all important back-office processing services on behalf of the front-line business units.

The IT Group's mission is to provide a timely, consistent and reliable banking system which performs smoothly and efficiently at the operational level. During the year, the group has focused on ensuring that all systems are fully Year 2000 compliant. It has also played a major part in planning and re-engineering the Bank's operations by increasing the automation process.

To achieve this objective, the underlying communications backbone is being upgraded and an advanced network protocol has been put in place. The core systems supporting the Bank's various divisions are being integrated and the data warehouse has been enriched to enhance the level of customer service. These measures will redefine and drive forward NCB's new delivery channels. Two of these, the Call Centre and the PC Banking system are close to being finalised. Future delivery channels, which include the Internet, extranet and kiosks, will position the Bank to take full advantage of the growing opportunities of e-commerce.

The Operations Group's activities are divided between three separate departments. Centralised Operations handles clearing through SAMA, the processing of utility bills, payrolls and loans, vault and off-site ATM cash management, as well as local and overseas fund transfers. Trade Services deals with all aspects of letters of credit, letters of guarantee, documentary collections, shipping guarantees and bill discounting. The department maintains a team of highly skilled trade specialists

to guide and advise our customers. Treasury Operations offers a comprehensive execution service on behalf of the Bank's Treasury, which includes foreign exchange transactions, money and capital markets, derivatives and private portfolios.

During 1998, the Operations Group has continued to improve service levels for clients both within and outside the Bank. The year's achievements have included the centralisation, in Jeddah, of all outgoing local bank transfers through SARIE, as well as the automation of all trade finance transactions. Currently, the group is undertaking fully automated payroll processing on behalf of a number of external entities.

At present, the trade finance system is being integrated with SWIFT and BANCs, which will eliminate the Y2K problem and effect considerable gains in operational efficiency. A new service is to be launched shortly, which will allow customers to enquire about and initiate trade finance transactions using a PC, via the Internet, in their own offices. This will be followed, later in the year, by an automated direct debit service operating through SARIE and straight through processing (STP).

The group will continue to add value to its services by streamlining systems and developing human resources still further. Over the course of the year, the division's level of Saudisation rose to 65%.

The Year 2000 problem is one of the most critical issues confronting business and the wider community across the world. NCB has been

conscious of its responsibility to be fully compliant well in advance, not only Kingdom-wide, but overseas as well. The Year 2000 Project Office was established in January 1997 with the clear mandate to initiate, manage and co-ordinate the Bank's efforts. This mammoth undertaking is being tackled by dedicated teams of professionals representing every one of NCB's divisions.

Under comprehensive guidelines issued by the Saudi Arabian Monetary Agency (SAMA), all banks in the Kingdom are required to have their mission critical systems fully compliant by 30 April 1999. NCB has committed substantial financial and human resources to meet the key deadlines and ensure that none of its customers will suffer any interruption in service.

Mindful of our obligation to the wider community, we have published an extensive range of literature on the topic and held seminars for our customers and business partners Kingdom-wide, to raise awareness of the problem and exchange ideas.

The division's primary objectives are to promote a comprehensive control structure at every level within the Bank and to provide an efficient, value-added service to management. In doing so, we use the most up-to-date techniques including risk-based audit methodologies.

Our participation in the process of enhancing NCB's policies and procedures is on-going. We devote substantial resources to consultancy and advisory activities for other divisions. These

activities include assessing new product developments, identifying the risks and recommending adequate controls, as well as proposing strategies to improve the quality of NCB's loan portfolio. We also publish bulletins on topics such as fraud and money laundering.

During the course of the year, the value of the division's consultancy role has been underscored by the number of assignments undertaken in many different business areas. Our involvement in the Year 2000 compliance project is a case in point, where we have raised awareness at a senior level and participated in the formation of the Y2K task force.

Training has remained a priority. We launched our own computer-based training programme on money laundering – the first of its kind in Arabic – which can be accessed by PC. We have also developed from conception a modern bank audit training programme in Arabic, which reinforces the transition from traditional audit methods to the latest international standards. Again, this is a first.

The year has also seen the creation of an Audit Committee, composed of non-executive directors, which is briefed by the Audit Director. Its function is to address issues of corporate governance and to ensure that NCB continues to comply with its obligations to customers and shareholders, and with legal and regulatory requirements.

The division serves two distinct customer groups. The first consists of overseas banks and financial institutions which wish to conduct business with

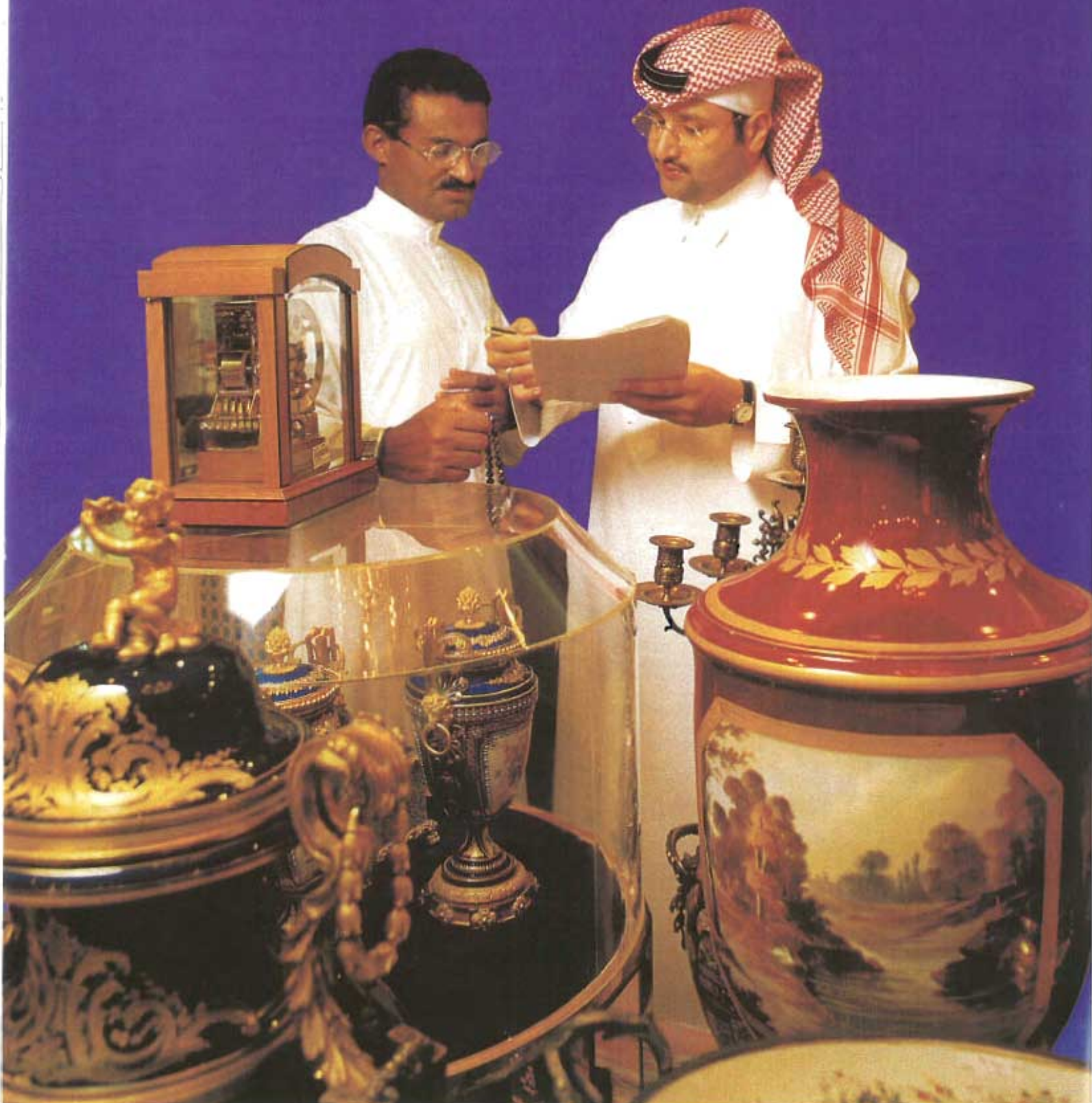
Saudi Arabia. Within this group are the 600 plus institutions in over 70 countries with which NCB maintains business relationships. The second group comprises customers of the Bank within Saudi Arabia, who wish to transact business outside the Kingdom and require a business partner or intermediary. International Division manages the relationship with those intermediaries.

The Jeddah-based division is supported by branches in Bahrain and Beirut and representative offices in London, Frankfurt, Singapore, Seoul and Tokyo. The unit in Bahrain manages all offshore lending business for the Bank and its customers, whilst the branches and representative offices are business development and service units, each of which has a defined catchment area covering Saudi Arabia's major trading partners. The division is a significant contributor to the Bank's profitability – and 1998 proved to be a record year.

In the face of continuing economic turbulence, International Division has managed the Bank's international exposure prudently. The division's main focus has been to service our domestic customer base and international correspondents in their payment and trade needs without increasing NCB's risk exposure. We have played an important role in meeting the needs of the Kingdom's largest exporters and importers, having provided support to international clients bidding for contracts in Saudi Arabia and helped the development of the growing non-oil export sector. An area of particular focus has been our work with international institutions to develop Islamic products for transactions, both within the Kingdom and overseas.



Retail banking lies at the heart of NCB's operations, where our dedication to customer satisfaction is never-ending.



The arrival of the Euro represents an exciting challenge, since it helps our customers to reduce the cost of cross border transactions with Europe – a significant trading partner. The division was actively involved in ensuring that the Bank was ready to provide our customers with a range of Euro related products which fully meet their requirements. During the coming year, we will seek to ensure that our customers receive a problem-free service while continuing to transact international business, despite the challenges which the new millennium is expected to bring. Similarly, we will be selecting our international partners carefully to protect our customers and operations against Year 2000 non-compliance.

The division's primary responsibilities continue to be the delivery of timely, accurate financial information and the maintenance of strong and comprehensive financial and internal controls.

The division ensures the availability of fast, accurate, reliable and relevant financial information, which strictly conforms with national and international accounting standards, to support the decision-making process throughout the Bank and which actively enforces a culture of strong financial and budgetary control.

During the year, the division has been one of the leading participants in the planning, testing and implementation of strategic management information and control systems, with a view to improving the efficiency, productivity and flexibility of information access across the Bank.

Significant progress has been made in maintaining and enhancing the internal and financial control structure of the Bank, by migrating from detective and reactive controls to a more proactive and preventative approach.

The division's contribution to the Year 2000 project has focused on developing contingency planning and compliance testing of financial accounting systems.

The General Support Services Division implements the Bank's plan for the training and recruitment of local talents to fulfill its national and social role in creating job opportunities for Saudi youths. To that end 241 Saudis were recruited and 186 graduates joined the Bank's training programme during the year, thus raising the level of Saudisation to 70% by the end of 1998.

The Bank actively pursued training programmes for its employees to prepare them for the changes and the challenges ahead and to improve its services. In this respect the Bank organised more than 30,000 training days, 16,000 of which were at its Training Centre. A plan has also been drawn up to prepare and provide the human resources required to meet the expected expansion in Islamic Banking.

The division always endeavours to improve its services and increase its cost-effectiveness through the rationalisation and automation of some of its processes, and contracting out some others to companies that are better qualified and equipped to provide such services. In this respect a contract

was signed with a specialist medical insurance company to provide healthcare and treatment for the Bank's employees and their families. A contract was also signed with a company to maintain the Bank's headquarters in Jeddah. A third contract was signed with a company to deliver mail within the Bank's headquarters and between various divisions and branches.

The division also prepared a number of operational guides and established a system for liaison with employees, and through the Bank's Purchase Office all its needs are met at optimum prices. On the other hand the office of Buildings and Engineering is building new branches and identifying positions for new ATMs.

Open dialogue is a hallmark of NCB's way of doing business and the division maintains strong links with a large sector of the community, including customers and the media.

The division prepares and organises conferences and exhibitions inside the Kingdom and abroad to ensure an open and useful exchange of views and a climate conducive to development and progress.

The division also supports wide-ranging educational, social, health, sport and literary activities. It does this through active participation in organising information weeks and art exhibitions, as well as cultural and sports competitions.

The division also receives guests from the Kingdom and abroad and supervises the senior management's programme of visits to various